**Exhibit No. \_\_\_ (CTM-1T)**

 **Docket UE-132027**

 **Witness: Christopher T. Mickelson**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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| **In the Matter of the Petition of****PUGET SOUND ENERGY, INC.****For an Accounting Order Approving the Allocation of Proceeds of the Sale of Certain Assets to Public Utility District #1 of Jefferson County** | DOCKET UE-132027 |

**TESTIMONY OF**

**CHRISTOPHER T. MICKELSON**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Distribution of Proceeds and Rate Design***

**March 28, 2014**

TABLE OF CONTENTS

[I. INTRODUCTION 1](#_Toc383490553)

[II. SCOPE AND SUMMARY OF TESTIMONY 3](#_Toc383490554)

[III. DISTRIBUTION OF PROCEEDS 4](#_Toc383490555)

[A. Inclusion of General Plant 5](#_Toc383490556)

[B. Removal of Special Contract Customers 7](#_Toc383490557)

[IV. RATE DESIGN 8](#_Toc383490558)

# INTRODUCTION

Q. Please state your name and business address.

A. My name is Christopher Thomas Mickelson. My business address is the Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (“Commission”) as a Senior Regulatory Analyst in the Energy Section of the Regulatory Services Division. Among other duties, I am responsible for analyzing financial, accounting, and revenue allocation and rate design issues in general rate cases, accounting petitions, and other tariff filings, as they pertain to the electric and natural gas companies under the jurisdiction of this Commission.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June 2007.

Q. Would you please state your educational and professional background?

A. I graduated from the University of Washington in 2002, receiving a Bachelor of Arts degree in Business Administration. While attending college, I performed the duties of accounts payable and subcontracting accounting for Sellen Construction Company. In 2006, I was employed as a fraud auditor for the Washington State Department of Labor & Industries. Since joining the Commission, I have attended several regulatory courses, including the 49th Annual National Association of Regulatory Utility Commissioners Regulatory Studies Program held at Michigan State University.

 I testified on uncollectible expenses, net-to-gross conversion factor, electric cost of service, revenue allocation, rate design, and service charges in PacifiCorp d/b/a Pacific Power & Light Company’s general rate case (“GRC”), Docket UE-130043. I also testified on Aldyl-A pipe replacement accounting treatment, electric and natural gas cost of service, revenue allocations and rate design in Avista Corporation’s GRC, Dockets UE-120436 and UG-120437.

I testified on the treatment of planned major maintenance activities, hydro production operating and maintenance expense, the handling of United States Department of the Treasury Grants, other power cost issues and calculations, revenue allocation, and rate design in Puget Sound Energy, Inc.’s (“PSE” or “Company”) Power Cost Only Rate Case (“PCORC”), Docket UE-130617; and on natural gas revenue requirement, revenue allocation and rate design in PSE’s GRC, Docket UG-111049. I was the lead analyst in numerous other tariff applications, including GRCs of Murrey’s Disposal Company, Inc., Docket TG-090097; American Disposal Company, Inc., Docket TG-090098; Washington Water Service Company, Docket UW-090733; and Waste Management of Washington, Inc., Dockets TG-091933 and TG-101080.

I have participated in the development of Commission rules, prepared detailed statistical studies for use by commissioners and other Commission employees, and examined utility and transportation company reports for compliance with Commission regulations. I have also presented Staff recommendations at numerous open public meetings.

# SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony presents Staff’s recommendations for allocating to PSE’s rate schedules the proceeds from the sale of the Company’s assets to Jefferson County Public Utility District #1 (“JPUD Sale”) that Staff witness E.J. Keating recommends be distributed to ratepayers. I also present Staff’s recommended rate design to implement that allocation.

My testimony responds to the proposals of Company witness Jon Piliaris in his direct testimony at Exhibit No. \_\_ (JAP-1T), pages 16-19.

Q. Please summarize your recommendation on the allocation of JPUD Sales proceeds to the Company’s rate schedules.

A. Staff modifies the Company’s proposal by adding general plant as an allocation factor and by removing special contract customers from the distribution of proceeds. These proposals more appropriately align costs and benefits for ratemaking purposes.

**Q. Please summarize your recommendation on rate design.**

A. Staff recommends that the Company pass back the proceeds from the JPUD Sale through a rate credit similar to Tariff Schedule 95a,[[1]](#footnote-1) over a four-year period. This proposal will alleviate the immediate short-term harm to ratepayers from the JPUD Sale that is shown in Exhibit No. \_\_\_ (EJK-4).[[2]](#footnote-2) The account balance should accrue interest at the Company’s after-tax rate of return grossed up for taxes.

Q. Do you sponsor any exhibits?

A. Yes, I sponsor the following exhibit:

* Exhibit No. \_\_\_ (CTM-2), Distribution of Proceeds

# DISTRIBUTION OF PROCEEDS

Q. Please summarize Staff’s proposal to allocate JPUD Sales proceeds to PSE’s rate schedules.

A. Staff modifies the Company’s proposal by adding general plant as an allocation factor and by removing special contract customers from the distribution of proceeds. As I explain below, these proposals more properly align costs and benefits for ratemaking purposes than the Company’s proposals.

Q. Please summarize how Staff’s modifications are implemented.

A. Staff allocates the proceeds based on closing plant data. This data is broken out into three categories: general plant, low-voltage and high-voltage distribution plant. The results from each of these categories are spread to each rate schedule based on the Company’s cost of service study from PSE’s last fully litigated GRC, Dockets UE-111048 and UG-111049.[[3]](#footnote-3)

 Next, Staff removed special contract customers’ allocated proceeds by applying each rate schedule’s percentage of total allocated proceeds excluding special contract customers to derive each rate schedule’s incremental proceeds received.

Finally, the categories are aggregated for each rate schedule. The allocation to each rate schedule is shown in my Exhibit No. \_\_\_ (CTM-2).

### Inclusion of General Plant

Q. How does the Company allocate JPUD Sales proceeds to the rate schedules?

A. The Company allocates proceeds to the current rate schedules based on distribution plant. This is the same manner by which customers are charged for the costs they impose on the total system. This premise of cost causation is present in many aspects of determining rates in a price-regulated industry. It was also the methodology used to allocate revenues as the basis for setting rates in the Company’s last fully litigated GRC in 2011.

Q. Does Staff accept PSE’s method for allocating JPUD Sales proceeds based on distribution plant?

A. In general, yes. The Company has proposed a fair allocation among the schedules based on distribution plant in its 2011 cost of service study. Staff’s inclusion of general plant slightly improves the allocation results between each rate schedule because it more properly identifies all costs required to serve each particular customer class.

Q. How did Staff determine the amount of general plant to include within the allocation method?

A. Staff used the Company’s response to Staff Data Request 21 to determine the amount of general plant to allocate between customer classes. That response reflects the difference between the plant amounts used in Exhibit No. \_\_\_\_ (MRM-3), lines 2-4 and Exhibit No. \_\_\_ (JAP-8), lines 7-9. This difference represents two percent of the net book value for allocation purposes; therefore, general plant could have value depending on the proceeds split between the Company and ratepayers, and also between the different customer classes.

Q. How did Staff allocate JPUD Sales proceeds to the PSE’s rate schedules once you determined the amount of general plant to include in the allocation?

A. Staff used the same allocation method among the rate schedules based on the general plant in the Company’s 2011 cost of service study. This is the exact same method the Company uses in this case to allocate proceeds to the current rate schedules based on distribution plant.

Q. Have you prepared an exhibit supporting Staff’s allocation methodology?

A. Yes. Exhibit No. \_\_\_ (CTM-2) develops Staff’s recommended allocation of JPUD Sales proceeds. Because Staff fine-tunes the allocation parameters proposed by the Company, my exhibit uses a formatted model similar to Mr. Piliaris’s Exhibit No. \_\_\_ (JKP-8).

### Removal of Special Contract Customers

Q. Does Staff accept the Company’s proposal to allocate JPUD Sales proceeds to special contract customers?

A. No. Special contract customers should not receive any of these benefits.

Q. Why should special contracts customers be excluded from the allocation of proceeds?

A. Special contract customers are the exception to the uniform rate-making process. Their rates are individually negotiated with the Company to cover any incremental costs and retain some contribution to margin.

Special contract customers, therefore, in all likelihood did not contribute to the distribution plant within Jefferson County; therefore, they should not receive any benefits from the JPUD Sale.

Q. How did Staff ensure that special contract customers do not receive proceeds from the JPUD Sale?

A. Staff utilized each rate schedule’s percentage of total allocated proceeds excluding special contract customers and applied each rate schedule’s percentage to the allocation of special contract proceeds.

# RATE DESIGN

Q. Please describe Staff’s four-year bill credit proposal concerning rate design.

A. Staff’s recommendation is for the Company to pass back JPUD Sales proceeds allocated to ratepayers through a rate credit similar to Tariff Schedule 95a, over a four-year period. This proposal will offset the immediate short-term harm to ratepayers reflected in Exhibit No. \_\_\_ (EJK-4). The account should accrue interest at the Company’s after-tax rate of return grossed up for taxes.

Q. How does Staff’s four-year bill credit proposal differ from PSE’s proposal?

A. Staff’s proposal is more specific than the Company’s proposal which is simply:

[C]onsistent with the treatment of PSE’s comparably sized regulatory assets and liabilities, PSE proposes to credit customers’ share of the gain on the sale of the assets over a four-year period.[[4]](#footnote-4)

Q. Have you prepared an exhibit calculating the four-year bill credit proposal?

A. No. Instead, the Commission should order the Company on compliance to file the calculation of the rate credits for each eligible rate class in a newly designed Schedule. Within that compliance filing, the Schedule would calculate rates for each class by dividing the ratepayer allocated proceeds, which will accrue interest at the Company’s after-tax rate of return grossed up for taxes, by the weather-adjusted kWh for each class. What Staff can state is that residential customers receive approximately sixty-three percent of the overall proceeds, as shown in my Exhibit No. \_\_\_ (CTM-2).

Q. Does this conclude your testimony?

A. Yes.

1. Tariff Schedule 95a passes back Treasury Grant monies over a ten-year amortization period that PSE received for the White Horse Expansion and Lower Snake River Phase 1. [↑](#footnote-ref-1)
2. Immediate short-term harm to remaining ratepayers is reflected for years 2013 through 2017. [↑](#footnote-ref-2)
3. *WUTC v. Puget Sound Energy, Inc.,* Dockets UE-111048 and UG-111049, Order 08 at ¶¶ 331-340 (May 7, 2012). [↑](#footnote-ref-3)
4. Piliaris, Exhibit No. \_\_\_ (JAP-1T) at page 19, lines 2-4. [↑](#footnote-ref-4)